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ECONOMIC DEVELOPMENT AND AID[1]

SITUATION

The peoples in most developing countries of the world have a growing urge to speed economic development and raise the levels of living. The developing nations are just emerging from many centuries during which economic freedom was a privilege of the few who by heredity, political position, or military might were able to reserve this freedom for themselves and exclude all others.

The development of these nations is important to the United States because it will foster political stability, increase trade, provide a higher standard of living for the people of these countries, and create a less favorable climate for communism.

Private capital investment is necessary for a higher growth rate, and many countries do not have sufficient internal capital. Loans and grants by other governments can be of great assistance but cannot be the principal source of development capital for many countries. Technical assistance can be used most effectively to stimulate development projects. Although agricultural development is of particular importance in many of the developing countries, industrial development is also important.

Economic growth in these countries will be discussed in terms of available resources, incentives, and capital investment essential to their development.

NATURAL RESOURCES

Most developing countries have sufficient natural resources to achieve higher living levels than now exist, but many obstacles impede development of these resources.

Natural resources and the potential for development vary from country to country. For example, the known iron and coal deposits in India make the potential there much greater than in Pakistan, which has no known mineral reserves and very limited additional farm land. In the Philippines, where only one-fourth of the arable land is now cultivated, the potential for future agricultural development is large. Oil reserves in Iran, Venezuela, and Trinidad and bauxite reserves in Guinea have been a major factor in the relatively rapid economic growth of these countries.

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In some developing countries, the present and potential quantity of arable land is so small in relation to population that living standards can be raised little, if any, through agricultural development. Such countries include Egypt, Turkey, Hong Kong, and Trinidad. Improved living standards in these countries will depend primarily on industrial development. Aggregate per capita agricultural production in Turkey has actually declined during the last fifteen years.

HUMAN RESOURCES

The human resource, sometimes called "social capital," is of major importance in the economic development of any nation. In general, this resource consists of the people (labor force), their health, their education, and the degree of economic freedom they enjoy.

Among the developing nations visited by the Asian, African, and Caribbean teams, population ranged from 1.5 million in Nicaragua to 440 million in India. The percentage of rural inhabitants ranges from less than 10 percent in Hong Kong to almost 90 percent in Afghanistan, Guinea, and Ghana. In the Caribbean area percentages of rural people ranged from 35 percent in Trinidad to about 60 percent in Mexico, Nicaragua, and Colombia. Over-all economic growth in these three areas of the world has been retarded by the limited educational opportunity in the rural areas.

National health levels also vary, but are generally low as in Guinea and Ghana, where the anticipated life span is 30 years, and almost half of the population is under 15 years. Despite the short life span caused by lack of sanitation, improper diets, high infant mortality, and inadequate medical attention, the majority of these nations have a population growth rate approaching 3.5 percent per year.

The education, technical skill, and managerial ability levels are generally low in most of these countries. However, strong emphasis is being given to public education. Hong Kong is capitalizing on a skilled labor force to enhance economic growth. Several countries are developing free compulsory public education systems. General and vocational education in Caribbean countries, Egypt, and Ghana, are beginning to progress beyond grammar school levels.

Educational opportunities outside of formal classroom training in public or private schools are available to rural adults and youth groups in widely varying degrees. However, educational opportunity and literacy are lower in rural than urban areas, and this problem is magnified by the high percentages of rural inhabitants in these countries.

The extension programs observed show striking similarities to those of the United States. Almost without exception, however, the agricultural colleges, if any, were already administered under the Ministry of Education while the extension service came under the Ministry of Agriculture. As a result local extension agents, trained in the agricultural colleges, rarely have direct contact with subsequent research results or improved teaching techniques and procedures.

Duplication of effort and administrative confusion have also developed in several countries because of educational programs initiated by National Economic Development Corporations and experiment stations operated by foundations and other semi-government institutions working independently of the extension service.

Despite these difficulties, however, the institutional mechanism for improving the technical proficiency and economic status of the rural human resource throughout the countries of Asia, Africa, and the Caribbean now is better than anything available in the past.

Freedom of economic opportunity is essential to growth. Because it stimulates the accumulation and use of investment capital, it gives incentive and direction to acquisition of technical and managerial skills, provides direction for research, and produces new technology. It also develops an attitude which breaks the bands of tradition and provides the basis for the institutional changes required for economic progress.

During the past quarter of a century the economic and political systems of "privilege for the few and bare subsistence for the many" have disintegrated at an accelerating pace. The people and the new leaders of these countries are striving for economic progress and greater freedom at an ever increasing rate. To attain their goal they must still overcome many formidable barriers imposed by such factors as their religious fatalism, tribal loyalties, language diversity, and restrictive social classifications.

INCENTIVES

Economic development requires the advance commitment of capital, labor, and land resources to either public or private enterprises.

In a free enterprise society the rate of development is closely associated with potential monetary returns to ownership, managerial skills, and labor in relation to the risks and effort involved; differentiated social incentives such as recognition of merit, prestige, and status are important but secondary.

In a communist society, economic development depends upon land, labor, and capital commitments to collective enterprises. Therefore, the rate of growth must be associated with such factors as: (1) economic security based upon a socially guided distribution of consumer goods, (2) public recognition, status, and position as special individual incentives for contributions of managerial and technical skills, and (3) a powerful sense of national destiny to direct the aggregate use of the material and human resources.

The problem of stimulating agricultural production for aggregate distribution without monetary incentives for those who manage the farms and work the land has particularly plagued the developing nations. Political policies in free enterprise nations may also be used to stimulate, retard, or direct economic development by modifying individual incentives. Price supports, import restrictions, and other devices are being used in many of these countries to encourage certain kinds of production regardless of over-all economic development. On the other hand, some countries are making numerous tax and duty concessions and giving private access to dominion preference markets.

INVESTMENT CAPITAL

Private investment capital from both internal and external sources is rarely available in countries where industry and business are partially or wholly nationalized.

In some countries restrictions on the importation of management or on the repatriation of earnings seriously limit the availability of outside private capital. Internal management can be developed over time but often at the expense of retarding economic growth.

The lack of sound fiscal and monetary policies also limits the availability of investment capital. Frequently a growing conflict arises from the need for dividing available government funds between development capital and expenditures for social welfare. Failure to resolve this conflict often results in rising budget deficits.

Lack of political stability in some countries prevents leaders from either increasing tax revenues or decreasing expenditures for social welfare programs. Foreign loans and grants appear to these leaders as the only alternative solution to their deficit problems.

Many of the developing countries have received grants and loans from Eastern Bloc countries as well as Western countries. However, these loans cannot provide the principal source of investment capital. In the long run the economic system must be conducive to private investment, and sound monetary and fiscal policies must be followed if optimum economic growth is to be enjoyed.

FOREIGN AID PROGRAMS

The United States and the West have been making investments through loans and grants including military aid and P. L. 480 authorizations in all of these countries in order to promote economic growth, reduce undernourishment, and develop stable governments.

The cumulative total U. S. expenditures for aid (including military aid) to individual countries is sizable. In countries that are considered to be strategically located, such as Iran, Turkey, and Pakistan, we find the cumulative total U. S. aid representing one-third to two-fifths of the annual GNP of the country.

Although the total U. S. aid to India exceeds 4 billion dollars, it still represents less than 15 percent of India's average annual GNP. In Ghana it is less than 2 percent and even less in Trinidad, where U. S. aid is limited to technical assistance.

When compared with the balance-of-payments deficit in each country, the relative position of U. S. aid becomes more important. For example, in India, the balance-of-payments deficit amounted to 924 million dollars in 1961, while the total of all external assistance amounted to 823 million dollars.

P. L. 480 authorizations were a major portion of U. S. aid programs in the countries visited in South America, Africa, and Asia. The Philippines, Brazil, Ghana, and Egypt were shifting from Title I imports of agricultural commodities to Title IV. Major dollar markets for U. S. wheat or flour were in Trinidad, Venezuela, Hong Kong, and the Philippines.

Activities carried on in these countries under Title II and III in refugee and famine relief projects, school lunch programs, and health services are a valuable factor in improving general living conditions. Equally important is the technological training being given local citizens in administering and servicing P. L. 480 commodities—a training designed to improve the contribution of the human resource to economic development.

CONCLUSION

We believe our investments in aid programs have facilitated economic development and have made it possible for these countries to move toward more stable governments.

We believe our government advisory efforts, the general educational and research programs, the teaching of a common language, and the technical aid programs with limited financial aid have been valuable to us and to recipient nations.